

PUBLIC DISCLOSURE

July 28, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

MASSBANK

123 HAVEN STREET
READING, MA 01867

DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MA 02110

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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TABLE OF CONTENTS

I.	General Information	1
II.	Institution Rating	
A.	Overall Rating	2
B.	Lending, Investment, and Service Test Table	#
C.	Description of Institution.....	#
D.	Description of Assessment Area.....	#
E.	Conclusions with Respect to Performance Tests	#
III.	Appendices	
A.	Appendix A - Scope of Examination.....	#
B.	Appendix B - Lending Data.....	#
1.	Table 1 - Lending Volume	
2.	Table 2a - Geographic Distribution of Home Purchase Loans	
3.	Table 3a - Geographic Distribution of Home Improvement Loans	
4.	Table 4a - Geographic Distribution of Home Mortgage Refinance Loans	
5.	Table 5a - Geographic Distribution of Multifamily Loans	
6.	Table 6a – NOT USED	
7.	Table 7a - NOT USED	
8.	Table 8a - Borrower Distribution of Home Purchase Loans	
9.	Table 9 a - Borrower Distribution of Home Improvement Loans	
10.	Table 10a - Borrower Distribution of Home Mortgage Refinance Loans.....	
11.	Table 11a – NOT USED	
12.	Table 12a - NOT USED	
13.	Table 13 - NOT USED	
14.	Table 14 - Qualified Investments	
15.	Table 15 – NOT USED	
16.	Demographic Information.....	

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to access the institution's record of meeting the needs of its entire assessment area, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **MASSBANK** prepared by the Massachusetts Division of Banks, the institution's supervisory agency, as of **July 28, 2003**. The Division evaluates performance in the assessment area(s), as they are defined by the institution, rather than the individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The Division rates the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00.

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated Satisfactory. An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. This rating is based primarily on the following:

- An adequate level of performance in lending to low- and moderate-income borrowers;
- An adequate geographic distribution of lending throughout all census tracts within its assessment area
- a minimal level of community development loans;
- an insufficient level of qualified investments;
- A wide range of retail and community development services.

The following is a summary of the bank's performance under each of the three tests.

Lending

Lending activity is adequate.

- The bank's loan-to-deposit and net loan-to-asset ratios have decreased significantly, however lending activity still indicates a willingness to extend credit.
- A majority of home mortgage loans by number and dollar amount were made within the assessment area during 2002 and year-to-date 2003.

Geographic distribution of home mortgage loans is adequate.

- The percentage of home mortgage originations in the low- and moderate-income census tracts during 2001 appears adequate, however percentage of originations declined and was well below aggregate percentages for 2002. There has been an increase in the percentage of originations in these geographies for year-to-date 2003.

Lending to borrowers of different incomes is adequate.

- The percentage of originations by borrower income level reveals adequate percentages of lending to low- and moderate-income borrowers when compared to the percentage of family households throughout the assessment area. While levels appear reasonable a declining trend is noted.

Community Development Lending is adequate.

- The bank demonstrated a willingness to meet community development lending needs inside the assessment area primarily through loan pools and increased commitments to an affordable housing development project.

Innovative and Flexible Lending Practices are adequate.

- The bank offers a number of innovative and flexible residential loan products from which it originated a number of loans.

Investments

The level of qualified investments and the degree of innovativeness are insufficient.

- The bank made an acceptable level of qualified grants and introduced an innovative affordable housing grant initiative, however the level of qualified investments fall far below reasonable levels of an institution of its asset size and type.

Services

The delivery of retail services and management's commitment to community development services reflect a very good level of responsiveness to the needs of the assessment area.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory".

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The rating period for this evaluation is January 1, 2001 to June 30, 2003.

The assigned CRA rating is based on the results of three performance tests: (1) the Lending Test, (2) the Investment Test, and (3) the Service Test. The greatest weight in assigning the overall CRA rating is given to the Lending Test.

LENDING, INVESTMENT AND SERVICE TEST TABLE

PERFORMANCE TESTS MASSBANK			
Performance Levels	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory			X
Satisfactory	X		
Needs to Improve		X	
Substantial Non-Compliance			

*Note: The Lending Test is weighed more heavily than the Investment and Service Tests when arriving at an overall rating.

DESCRIPTION OF INSTITUTION:

MASSBANK, a state chartered savings bank headquartered in Reading, Massachusetts, is a subsidiary of MASSBANK Corp., a one-bank holding company with no other affiliate relationships. The bank's main office is located at 123 Haven Street, Reading. MASSBANK operates fourteen other full-service branch offices located in Chelmsford (2), Dracut (1), Everett (1), Lowell (2), Medford (1), Melrose (2), Stoneham (1), Tewksbury (1), Westford (1), and Wilmington (2), as well as ATM's located at Tsongas Arena, Lowell and at Johnnies Foodmaster, Melrose. Both branches in Lowell, as well as the MASSBANK-operated ATM at Tsongas Arena, are located in low-income census tracts. The Medford and Everett branch offices are located in moderate-income census tracts.

As of June 30, 2003, MASSBANK had total assets of \$1,008,889,000. Assets have increased \$37.7 million or 3.9 percent since September 30, 2001. Excluding the second quarter of 2003, where asset size declined \$7.8 million, quarterly asset growth has been slight but steady over the past eight quarters. Asset growth has centered mainly in short-term Fed Funds and the securities portfolio, valued at \$419,731,000 (\$419.7 million) as of June 30, 2003. Securities and short-term Fed Funds comprise 60.6 percent of assets and form the bank's largest assets.

The net loan portfolio is valued at \$298,883,000 (\$298.9 million) as of June 30, 2003, and comprises 29.6 percent of total assets. Refer to the following table for the distribution of the loan portfolio.

Gross Loan Distribution as of 06/30/03

Loan Type	Dollar Amount (000's)	Percent of Total Loans (%)
Construction and Land Development	165	0.0
Secured by Farmland	0	0.0
1-4 Family Residential	281,752	93.3
Multi-Family (5 or more) Residential	793	0.3
Commercial R.E.	425	0.1
Total Real Estate Loans	283,135	98.7
Commercial and Industrial	91	0.0
Agricultural	0	0.0
Consumer	3,920	1.3
Other	15,000	0.0
Total Gross Loans	302,146	100.0

Source: Consolidated Report of Condition and Income (Call Reports) 6/30/2003

As shown in the above table, the bank's primary lending focus is the origination of residential real estate mortgage loans, in that loans secured by one-four family homes comprise approximately 93.3 percent of the loan portfolio. These loans are mostly closed-end mortgage loans.

The bank operates in a highly competitive market area. The most recent aggregate data available pertains to calendar years 2001 and 2002. This data indicates that more than 430 financial institutions originated mortgages within the bank's assessment area in those years. MASSBANK ranked 14th and 21st respectively, with an overall market share of 1.56 and 1.13 percent. Management considers Lowell Five Cents Savings, Enterprise Bank, and Jeanne D'Arc Credit Union, Lowell, MA; Stoneham Co-Operative Bank and Stoneham Savings Bank, Stoneham, MA; Medford Co-Operative Bank, Medford, MA; Everett Co-Operative Bank, Everett, MA; Eastern Bank, Lynn; and Reading Co-Operative Bank, Reading, MA to be the primary local competitors. In addition to these local competitors, the bank faces additional competition from larger regional banks and mortgage companies.

The bank's CRA performance was last evaluated by the FDIC on May 7, 2001 and was rated "Satisfactory". The bank also received a "High Satisfactory" rating from the Massachusetts Division of Banks on April 27, 2000. Both evaluations were conducted using the Large Bank CRA examination procedures.

There are no financial or legal impediments that would limit this institution's ability to meet the credit needs of its assessment area.

DESCRIPTION OF THE ASSESSMENT AREA:

It is required by CRA that financial institutions designate one or more assessment area(s) where its record of helping to meet the needs of the community is evaluated.

MASSBANK's assessment area includes the 11 cities and towns of Chelmsford, Dracut, Everett, Lowell, Medford, Melrose, Reading, Stoneham, Tewksbury, Westford and Wilmington, all of which are located in Middlesex county, in either the Boston MA-NH Primary Metropolitan Statistical Area (PMSA) or the Lowell MA-NH PMSA. Both of these PMSA's are within the Boston Consolidated Metropolitan Statistical Area (CMSA).

MASSBANK's assessment area, as currently defined, meets the technical requirements of the CRA, as it (1) consists of one or more political subdivisions, (2) includes the geographies where the bank has its main office, branches and deposit-taking ATM's, as well as the surrounding geographies in which the institution originates a substantial portion of its loans, (3) consists of whole census tracts, (4) does not extend substantially beyond state boundaries, (5)

does not reflect illegal discrimination, and (6) does not arbitrarily exclude low- and moderate-income areas.

As defined by the 1990 U.S. Census, the cities and towns that made up MASSBANK's assessment area were comprised of 72 census tracts. In terms of income classification, there were 6 low-income, 20 moderate-income, 35 middle-income, and 11 upper-income census tracts. Low- and moderate-income (LMI) census tracts accounted for 36.1 percent of the total number of census tracts in the assessment area. Five of the 6 low-income census tracts were located in Lowell, and the remaining low-income census tract in Tewksbury. Six of the 20 moderate-income census tracts were located in Everett, 13 in Lowell, and a 1 moderate-income census tract was located in Medford. The 1990 U.S. Census data states that approximately 26.7 percent of the assessment area's total population resided within these low- and moderate-income (LMI) tracts.

The number of census tracts within MASSBANK's assessment area grew as a result of the 2000 census. According to the 2000 U.S. Census, the assessment area is comprised of 83 census tracts. In terms of income classification, there are 8 low-income, 23 moderate-income, 35 middle-income, and 17 upper-income census tracts. LMI tracts account for 37.3 percent of the total number of the census tracts. All of the 8 low-income census tracts are located in Lowell. Six of the 23 moderate-income census tracts are located in Everett, 14 in Lowell, and 1 moderate-income census tract is located in Medford. Approximately 34.6 percent of the assessment area's total population reside within these LMI tracts.

According to the 1990 U.S. Census data, the assessment area's median family income was \$48,531. According to the 2000 Census data, median family income is \$67,294.

Evaluation of data for calendar years 2001 and 2002 was based upon 1990 census information. Year-to-date 6/30/2003 performance data was based on 2000 census information.

The 2001 and 2002 Home Mortgage Disclosure Act (HMDA) Market Rank report produced by PCI Services, Inc., CRA Wiz displays a bank's rank in the market, as well as the level of competition within its market environment. This report reflects MASSBANK's rank as fourteenth out of 429 total HMDA loan originators in its assessment area for 2001 and 21st of 441 in 2002. The top five originators in sequential order are: Washington Mutual Bank, Countrywide Home Loans (a mortgage company), Fleet National Bank, GMAC Mortgage, and North American Mortgage Company in 2001 and Wells Fargo Home Mortgage in 2002. More specifically, MASSBANK is ranked third out of all institutions headquartered in the assessment area, ranking only below Jeanne D'Arc Credit Union and StonehamBank.

Community Contact Information

Two contacts were made with local community organizations. Both contacts indicated that more first time homebuyer products and soft second programs might enable more low- and moderate-income residents to purchase homes in the area, particularly in light of the rising cost of housing. Additionally, they indicated that there is a need for education and training for small business owners regarding various small business loan products and programs. This training would be extremely helpful in areas where there are a number of immigrant small business owners who might not be as familiar with area financial institution programs and loan product offerings.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

LENDING TEST

The institution's Lending Test performance was rated an overall "Satisfactory." The institution's lending efforts are rated under the seven major performance criteria: Lending Activity, Geographic Distribution, Borrower Characteristics, Community Development Lending, Innovative or Flexible Lending Practices, Fair Lending, and Loss of Affordable Housing. The following information details the data compiled and reviewed, as well as conclusions on the bank's performance.

Scope of Evaluation

The lending test evaluates an institution's record of helping to meet the credit needs of its assessment area based on an analysis of its residential mortgage, small business, and community development loans. Residential mortgage loans and community development loans originated during 2001, 2002 and year-to-date June 30, 2003 were included in the bank's performance. Small business and small farm loans are not offered by the bank and therefore were not considered in the analyses.

The data used to evaluate the bank's lending was derived from the HMDA/LAR (Home Mortgage Disclosure Act/ Loan Application Register) and the bank's community development loan register.

The bank's performance with respect to the Lending Test is rated satisfactory, indicating a reasonable level of responsiveness to the credit needs of the community.

I. Lending Activity

MASSBANK's lending activity reflects an adequate level of responsiveness to the credit needs of its assessment area. This was determined by analyzing the bank's net loan-to-asset (LTA) and net loan-to-deposit (LTD) ratios, as well as the distribution of home mortgage loans inside versus outside the assessment area.

For specific information concerning the volume of lending inside the bank's assessment area, refer to Table 1 in Appendix B. This evaluation considers only HMDA-reportable loans and community development loans, as MASSBANK does not tract their consumer loans and does not participate in small business lending.

For the time period covered by this evaluation, January 1, 2001 through June 30, 2003, MASSBANK reported 1,561 home mortgage loans totaling \$220,757,000. The majority of the loans were originated for the refinance of a one- to four-family homes. Of these 1,561 loans, 1,127 or 72.2 percent were originated inside the assessment area.

A bank's net loan-to-asset (LTA) ratio gives a picture of how much emphasis an institution places on making loans, pertaining to loans originating both inside and outside of the institution's assessment area(s). In order to facilitate a more complete evaluation, institutions are analyzed over a period of eight quarters, allowing for the examination of trends and fluctuations. From September 30, 2001 through June 30, 2003, MASSBANK's average LTA ratio was 33.4 percent. At the close of the second quarter of this year, the most recent data available, this ratio was 29.6 percent, based on net loans of \$298,883,000 (\$298.9 million) and total assets of \$1,008,889,000. Thirty percent is a comparatively low LTA ratio, industry-wide. However, this has historically been a typical LTA ratio for this institution, MASSBANK has always remained competitive within its assessment area for lending volume. Over the previous eight quarters, as detailed above, assets grew by 3.9 percent, while MASSBANK's LTA ratio decreased by 28.7 percent.

The sharpest decline in the LTA ratio over the previous eight quarters occurred between the third and fourth quarters of 2001. On September 30, 2001 the LTA ratio stood at 41.5 percent, based on a net loan portfolio of \$403.1 million, and as of December 31, 2001 dropped to 33.8 percent, based on net loans of \$328.4 million. A closer examination shows that as of September 30, 2001, MASSBANK had \$80 million in outstanding credit to other commercial banks in the U.S. in the form of long-term Fed Funds. By December 31, 2001, these loans had been fully paid off, as the decrease in its loan portfolio illustrates, therefore explaining the 18.6 percent decrease in LTA ratio between the two quarters. The other anomaly over the past eight quarters is the greater than average 2.3 percent decrease in the institution's LTA ratio between the first two quarters of this year. Management attributes this \$25.3 million or 7.8 percent decrease in net loans to a heightened level of competition, the abnormally low interest rates of the period,

and the bank's conscious decision not to set their rates at competitive prices in anticipation of rising interest rates.

A further analysis of the bank's net loan-to-deposit (LTD) ratio was performed. This analysis compares lending volume to level of deposits taken in. From September 30, 2001 through June 30, 2003, MASSBANK's average LTD ratio was 37.8 percent. As of June 30, 2003, this ratio was 33.4 percent, with total deposits equal to \$895.6 million. Like the institution's LTA ratio, this percentage is comparatively low, and although this ratio is typical for MASSBANK, the bank has remained competitive in its level of lending, in comparison to other institutions within the assessment area. Over the past eight quarters, the LTD ratio has declined by 29.7 percent. The largest decrease occurred between the third and fourth quarters of 2001, where it stood at 47.5 percent on September 30, 2001 and declined to 38.4 percent as of December 31, 2001, a decrease of 9.1 basis points. This sharp one quarter decline may be accounted for by the elimination of MASSBANK's \$80 million in outstanding loans to other commercial banks, as explained above.

As previously stated, over the past eight quarters, the LTD ratio has declined by 29.7 percent. Deposit growth has outpaced loan growth over this time period. With the exception of the most recent quarterly information available, second quarter ending 6/30/2003, there has been steady deposit growth from \$847.7 million as of 9/30/2001 to a high of \$902.4 Million as of 3/31/2003. The current level of deposits, as of 6/30/2003 rests at \$895.6 million.

Percentage of Lending inside the Assessment Area

MASSBANK's Loan Application Registers (LARs) were reviewed to determine the amount of credit extended within the bank's assessment area. During this period, the bank originated 1,561 HMDA-reportable loans totaling \$220.8 million. Of this amount, 1,127 loans, or 72.2 percent of the number and \$148.5 million or 67.3 percent of the dollar volume was originated in the bank's assessment area.

Refer to the following table for additional information by year regarding the bank's HMDA-reportable lending, by both number and dollar volume.

Distribution of Home Mortgage Loans Inside and Outside of the Assessment Area								
Year	Inside				Outside			
	Number of Loans		Dollar in Loans (000s)		Number of Loans		Dollars in Loans (000s)	
	#	%	\$	%	#	%	\$	%
2001	482	71.9	63,444	66.9	188	28.1	31,345	33.1
2002	451	70.4	60,444	65.5	190	29.6	31,784	34.5
Y-T-D 2003	194	77.6	24,633	73.0	56	22.4	9,107	27.0
Total	1,127	72.2	148,521	67.3	434	27.8	72,236	32.7

Source: 2001, 2002 and y-t-d 6/30/2003 HMDA/LARs, CRA Wiz

As previously indicated, according to the most recent aggregate lending data available for 2001 and 2002, MASSBANK ranked 14th and 21st respectively for HMDA reportable loans within its assessment area. The overall level and dispersion of lending activity by the bank is considered adequate.

II. Geographic Distribution

The following analysis provides a breakdown by product type, number and percentage, the bank's HMDA-reportable loans within its assessment area according to census tract income level. It is important to note that all percentages used for comparative purposes are based on 1990 census information for 2001 and 2002 while year-to-date (y-t-d) 2003 information is based on 2000 census information. Refer to Appendix B for core table analysis.

FFIEC Table 2a shows the geographic distribution of home purchase loans. This table reflects a penetration throughout the assessment area's census tracts. The bank originated 55 home purchase loans in 2001; 27 in 2002; and 13 y-t-d 2003. The highest percentage of these type loans was originated within the area's middle-income census tracts with 63.64 percent in 2001, 74.07 percent in 2002 and 53.85 percent in 2003. This loan volume is appropriate considering the high number of middle-income census tracts in the assessment area and the high percentage of owner-occupied housing units, 60.1 percent for 2001 and 2002, and 51.13 percent for 2003, in those tracts.

Upper-income census tracts accounted for 14.55 percent of loans originated in 2001, 22.22 percent in 2002 and 30.77 percent in 2003. These levels of originations are somewhat lower in proportion to the percentage of owner-occupied housing units in these tracts for 2001 and 2002, as the percentage of owner-occupied units was 24.3 percent. However, for 2003, according to 2000 census information, 26.58 percent of housing units in these tracts are owner-occupied thereby indicating that the year-to-date 2003 lending activity corresponds well.

The moderate-income census tracts accounted for 16.36 percent of home purchase loans in 2001; zero percent in 2002; and 15.38 percent in y-t-d 2003. When compared to the percentage of owner-occupied units in these tracts, performance levels for 2001 and 2003 compare favorably. However, the bank did not originate any home purchase loans in moderate-income tracts in 2002.

The bank originated 5.45 percent of its home purchase loans in low-income census tracts in 2001; 3.70 percent in 2002; and zero percent in y-t-d 2003. This loan percentage volume exceeds the percentage of owner occupied units in these tracts for 2001 and 2002, however not in 2003.

The bank's level of activity, relating to home purchase loans, when compared to the aggregate lending activity on a percentage basis, indicates that the bank had a higher percentage of its originations in low-, middle- and upper-income tracts while the aggregate percentage of originations exceeded the bank's in moderate-income tracts for 2001. In 2002, the bank's activity level mirrored 2001. There is no aggregate data available for 2003.

FFIEC Table 3a shows the geographic distribution of home improvement loans. The bank originated six home improvement loans in 2001; four in 2002; and one in y-t-d 2003. In 2001, three, or 50 percent of the originations were in upper-income census tracts, while there were one originated in each of the low-, moderate- and middle-income tracts. Of the four loans originated in 2002, 75 percent, or 3, of them were originated in middle-income tracts, the other was originated in an upper-income census tract. The one loan originated in 2003 was in a middle-income census tract. The small number of home improvement loans made by the bank precludes meaningful analysis of these originations.

FFIEC Table 4a shows the geographic distribution of home mortgage refinance loans. Home mortgage refinance loans represent the highest level of residential lending activity for the bank and overall marketplace. The bank originated 420 loans each in 2001 and 2002 as well as 180 in y-t-d 2003. Again, the bank originated the highest percent of loans in the middle-income census tracts with 58.1 percent of the total number of refinances for 2001; 62.14 in 2002; and 46.11 percent in y-t-d 2003. This loan volume is appropriate considering the high number of middle-income census tracts in the assessment area and closely mirrors the percentage of owner-occupied housing units in those tracts. When compared to the aggregate percentage of originations, there was a slightly higher percentage of originations by the bank in 2001 and a slightly lower percentage in 2002.

The bank originated 29.29 percent of its loans in the upper-income census tracts in 2001 and 32.62 percent in 2002, which is slightly higher than the 24.3 percent of owner-occupied properties located there. The originations for y-t-d 2003 of 41.66 percent, is significantly higher than the 26.57 percentage of owner-occupied housing units located in these geographies. Additionally, when compared to the aggregate, the bank originated a greater percentage of these loans in upper-income geographies than the aggregate for both 2001 and 2002.

Percentage of originations in moderate-income tracts fell below the aggregate in both 2001 and 2002. The percentage of originations for 2001 had the bank at 11.9 percent while the aggregate percentage was 13.54 percent. The 2002 levels were significantly lower with the bank originating 5 percent and the aggregate 12.76 percent. Both the bank and aggregate percentage levels were below the 14.99 percent of owner-occupied housing units located within moderate-income tracts. The bank's percentage of originations appears to be enhanced though y-t-d 2003 at 11.67 percent.

FFIEC Table 5a shows the geographic distribution of multifamily loans. The bank originated one multifamily loan during 2001 and none in 2002 or 2003. The small number of multifamily loans made by the bank precludes meaningful analysis of these originations.

The most recent available aggregate data for calendar years 2001 and 2002 was looked at for comparative purposes. This data revealed that the aggregate originations in low- and moderate-income geographies totaled 16 percent of all HMDA reportable originations in 2001 and 15.3 percent in 2002. In contrast, the bank originated 14.1 percent of its HMDA reportable loans in low- and moderate-income geographies in 2001 and 5.1 percent in 2002. The bank's 2001 levels appear to be within reasonable levels to be deemed adequate, however the 2002 levels are significantly lower and raise concerns. Market share reports for 2001 and 2002, indicate that MASSBANK was ranked 19th in lending in low- and moderate-income census tracts for 2001. The bank's ranking fell to 57th in 2002. Mitigating the concerns of 2002 levels are the y-t-d 2003 percentages that rest at 12.4 percent. It is important to note that while these levels appear better, there is not current aggregate data for 2003 available for comparative purposes.

The bank originated a similar percentage of loans in middle-income census tracts as the aggregate in both 2001 and 2002. The bank originated 58.1 percent and 63 percent in 2001 and 2002 respectively while the aggregate originated 60.5 percent and 59.5 percent. The bank originated 27.8 percent of its loans in upper-income census tracts in 2001 and 31.9 percent in 2002 while the aggregate originated 23.4 percent and 25.2 percent respectively.

To summarize the geographic distribution of the bank HMDA reportable lending is greatest in the middle-and upper-income census tracts where the majority of census tracts and housing units are located as well as the highest levels of aggregate lending. However, the bank's performance in low- and moderate-income census tracts falls below the aggregate percentage levels of performance, particularly in 2002 which is deemed to be marginally adequate. 2003 levels appear to be improving and 2001 levels are deemed to be adequate. Therefore, overall, the bank's performance relating to the geographic distribution of its lending activity is deemed to be adequate.

III. Distribution of Loans based on Borrower Income

This evaluating factor assesses how well the bank is addressing the housing credit needs of the area's low-, moderate-, middle-, and upper-income residents. Special consideration is placed on MASSBANK's record of lending to low- and moderate-income borrowers residing in the assessment area. Information in the HMDA LARs concerning residential mortgage lending shows an adequate

distribution of loans among all income levels, including both low- and moderate-income categories.

FFIEC Table **8a** shows borrower distribution of home purchase loans. The bank originated 55 loans in 2001, 27 in 2002 and 13 in Y-T-D June 30, 2003. The moderate-income borrowers accounted for the single greatest share of home purchase loans originated in 2001 and 2002 at 38.18 percent and 37.04 percent respectively. In y-t-d 2003, 30.77 percent were originated which equaled the percentage of originations to middle-income borrowers and was slightly less than upper-income borrowers. The high percentage of loans to moderate-income borrowers is attributed, in part, to the economic characteristics of the area and the strong loan demand from borrowers in this income category. Loans originated to moderate-income borrowers were well above the number of family households and 2001 and 2002 aggregate lending percentages. Lending to low-income borrowers was satisfactory at 5.45 percent in 2001, and improved to 14.81 percent in 2002, however, there have been no originations of this type in 2003. Although the percentage of loans to low-income borrowers is less than the percentage of low-income family households in the area, the percentage of originations was greater than the aggregate. Additionally, the number of loans is favorable considering that mortgage loan demand from borrowers in this income category is typically lower than that of the other income groups.

FFIEC Table 9a shows the borrower distribution of home improvement loans. MASSBANK originated 6 home improvement loans for 2001, 4 in 2002, and 1 for y-t-d June 30, 2003. In 2001, four loans, 66.67 percent of loans were to moderate-income borrowers and single loans were originated to both middle- and upper-income borrowers. In 2002, two of the loans, 50 percent, were made to moderate-income borrowers and 50 percent to middle-income borrowers. The single loan originated in 2003 was to an upper-income borrower. The small number of home improvement loans made by the bank precludes meaningful analysis of these originations.

FFIEC Table 10a shows the borrower distribution of home mortgage refinance loans. The bank originated 420 loans in 2001, 420 in 2002, and 180 for y-t-d June 30, 2003. Upper-income borrowers accounted for the single greatest share of home mortgage refinance loans originated at 49.52 percent of total volume in 2001, 45.24 percent in 2002, and 63.33 percent in y-t-d June 30, 2003. The high percentage of loans to upper-income family households is attributed, in part, to the economic characteristics of the area and the strong loan demand from borrowers in this income category. Loans originated to moderate-income borrowers was lower than the aggregate and portion of households in the area, where 12.38 percent of loans were originated to moderate-income borrowers in 2001, 16.90 percent in 2002, and 12.78 percent in y-t-d June 30, 2003. Lending to low-income borrowers was minimal, with refinancing lending activity at 4.05 percent in 2001, 3.10 percent in 2002, and 2.78 percent in y-t-d June 30, 2003.

When compared to the aggregate percentages for 2001 and 2002, the bank fell below the aggregate percentages in both the lending to low- and moderate-income borrowers for both years. Levels of percentages to low- and moderate-income borrowers appear to be dropping from 2002 levels with a substantial increase in percentage of these loans to upper income borrowers. These percentages are deemed to be somewhat adequate.

Analysis of all HMDA reportable lending inside its assessment area to borrowers of different income levels indicates that the bank originated approximately 22 percent of its loans to low- and moderate-income borrowers. While this level appears reasonable, there appears to be a declining trend over the two and one-half year period. Market share reports for 2001 and 2002, indicate that MASSBANK was ranked 15th in lending to low- and moderate-income applicants for 2001. The bank's ranking fell to 27th in 2002.

To summarize, the borrower distribution of MASSBANK's lending shows that an adequate portion of its home mortgage loan volume goes to low- and moderate-income borrowers.

IV. Community Development Lending

The institution's community development lending activities are evaluated pursuant to the following criteria: 1) the extent to which community development lending opportunities have been made available to the institution; 2) the responsiveness of the institution's community development lending; and 3) the extent of leadership the institution has demonstrated in community development lending.

A community development loan:

- Has as its primary purpose community development
- Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multi-family dwelling loan; and
- Benefits the bank's assessment area or a broader statewide or regional area that includes the assessment area.

The institution's performance under this factor is considered to be marginally adequate.

Downtown Venture Fund

The bank committed to three rounds of funding of this venture fund loan pool. The fund was formed to assist in funding new and expanding businesses in the downtown Lowell area. Funding is provided through the City of Lowell, Lowell Development and Financial Corporation (LDFC), Community Development Block Grant Funds, Life Initiative and loans from 8 local financial institutions. The bank's loans were in the amounts of \$45,000 in each year 2001, 2002 and 2003.

Terms of the loans call for a ten-year term with deferred principal and interest for the first year. Accrued interest will be added back to the loan balance and spread over the remaining nine years. Principal and interest payments will be paid for the nine year term based upon a 20 year amortization schedule with a balloon payment at the end of the tenth year. The LDFC administers the loan pool.

Loan to Non-Profit Organization

In November 2001, the bank originated a \$400,248 loan to a Lowell-based non-profit organization which primary purpose is to provide homeownership opportunities to low- and moderate-income families. The purpose of the loan was for the construction of four townhouse-type condominiums on land previously owned by the Lowell Housing Authority. All four units were sold at below market prices to income eligible first time homebuyers through a special program utilizing state and local funds.

Julian D. Steele Housing Development Project

The bank continues to carry its commitment from 1999 to participate, with other area institutions, in underwriting the revitalization and expansion of affordable housing in the City of Lowell. A total of \$20 million has been committed of which \$3.9 million has been made by this institution. The project will entail the rehabilitation of the J.D. Steele housing development, a 284 unit subsidized affordable housing complex, into 400 units of mixed income occupancy. 180 units will be located and sold to qualified low- and moderate-income buyers on the current site with an additional 220 rental units replicated through out the City of Lowell. Committed funds will be used for ongoing construction, soft and financing costs.

V. Innovative of Flexible Lending Products

The institution's innovative and flexible lending practices are evaluated pursuant to the following criteria:

1) the degree to which the loans serve low- and moderate-income creditworthy borrowers in new ways or serve groups of creditworthy borrowers not previously served by the institution; and 2) the success of each product serving low- and moderate-income borrowers, including the number and dollar volume of loans originated during the review period.

The bank's performance under this factor is considered adequate. MASSBANK offers various credit products that help serve the credit needs of the assessment area, some of which specifically address needs identified by community groups during contacts made by examiners. These products are described below.

Portfolio Lender

MASSBANK offers its customers a wide-range of variable and fixed-rate mortgage programs. Management has made the business decision to retain all residential mortgage loans within its portfolio. As a result, MASSBANK is able to provide a greater degree of underwriting flexibility than other institutions that underwrite to secondary market standards and criteria.

First-Time Homebuyers Program – In order to meet affordable housing credit needs for first time homebuyers, the bank developed its own First Time Homebuyer Program. Loans originated under these programs feature a low downpayment, initial interest rates, which are below market, minimal closing costs and more flexible underwriting criteria for low- and moderate-income buyers. The 7/1 ARM is available for 1-2 family owner-occupied residences for income eligible borrowers. The initial rate is discounted for 7 years and converts to one year ARM for the next 23 years. The low downpayment assists the borrower in overcoming the initial down payment, which is generally a hurdle to homeownership. The bank originated 13 loans totaling \$1,868,275.

Home Town Advantage Mortgage Program – This program is available for homebuyers within the bank's assessment area. This mortgage product offers a 1/8 percent discount off the bank's regular mortgage rates. The bank began offering the program in September of 1996. The bank originated 23 loans totaling \$4.1 million for the time period covered by this evaluation

Reverse Mortgage – Through the bank's association with Home Owners Option for Massachusetts Elders (HOME), the bank offers reverse mortgages for seniors who want to stay in their equity rich home and need additional monthly income. The bank originated 3 loans totaling \$255,327

Other Program Offerings

VA Loans – MASSBANK offers government-backed loans that feature lower downpayment requirements for qualified borrowers. Through this program, a 30 year fixed rate loan is available for 1-4 family owner-occupied units. There is no required down payment and maximum loan amounts are set based upon the type of structure. A total debt ratio of 41 percent is allowed. The bank has not originated any VA loans during this time period.

Lead Paint Abatement Loan Program – This unique loan program is geared to residents in the bank's assessment area who would like to eliminate hazardous lead in their homes. The program features a ½ percent discount on the rates offered on the bank's normal Property Improvement Loan products. A maximum of \$20,000 is offered on terms of up to 10 years with no points. The following eligible criteria must be met in order to qualify for this special low cost financing program: 1-4 family owner-occupied properties only, and the house must be located in the assessment area. This loan program has more liberal criteria and

a lower initial cost than a similar product offered by Massachusetts Housing Finance Authority (MHFA). The bank has not originated any loans through this program for this time period.

VI. Fair Lending Policies and Practices

MASSBANK's fair lending information was reviewed to determine how it related to the guidelines established by Regulatory Bulletin 2.3-101, the Division's Community Reinvestment and Fair Lending Policy.

The bank's maintains a fair lending policy aimed at preventing illegal discrimination and that adequately addresses the Division Regulatory Bulletin 2.3-101 and other aspects of fair lending. Through a review of the bank's files it appears that the bank follows it procedures set forth in the loan policy.

The bank provides employees with training on a variety of fair lending and diversity issues. MASSBANK's marketing efforts are done primarily through local radio, cable and newspaper advertisements that reach the entire assessment area. In addition, members of the bank are actively involved in the community and use their numerous contacts to help determine the credit needs of the assessment area.

The bank offers different types of flexible products that are effective in providing credit to those whose would not qualify under conventional lending standards. Please refer to Section V. "Innovative or Flexible Lending Practices" under the lending test for a list of flexible products.

The bank has a formal Second Review Practice for all denied credit applications. The policy calls for all denied applications to be reviewed by the bank's senior lending management prior to the issuance of the adverse action notice. Management reviews all denied loan applications to ensure they were handled objectively, and that the applicant was treated in a non-discriminatory manner. Loan management also verifies that the loan production staff is aware of all underwriting guidelines and has applied compensating factors consistently. In the event that the rejection of the credit request is upheld in the second review process, the adverse action is reported to the Board of Directors.

The bank has an internal control procedures in which the bank's compliance officer checks for compliance with various fair lending laws such as the Equal Credit Opportunity Act, Home Mortgage Disclosure Act and the Community Reinvestment Act. The bank retains the services of outside testers to ensure that no discriminatory practices are taking place in the application process. Periodically, a tester anonymously visits each of the bank's branches and the loan department.

MASSBANK refers all loan customers whose home loan is delinquent to the appropriate credit counseling services available in the area. A form containing the names, addresses and phone numbers of various counseling agencies is mailed to the borrower.

MASSBANK has developed a Fair Lending Policy that was last approved by the Board of Directors on December 12, 2002. The policy outlines the steps to be taken to ensure compliance with fair lending rules and regulations regarding the Fair Housing Act, ECOA, and the Consumer Protection Act, HMDA, and Reg B.

Bank records reflect that members of the Bank's consumer contact staff have received training dealing with Fair Lending related issues through an ongoing in-house training program for all personnel.

MINORITY APPLICATION FLOW

MASSBANK's eleven community assessment area contains 388,770 individuals, 36,539, or 9.4 percent, of which are minorities. The following table describes the assessment area minority population

Assessment Area Population By Race*

MASSBANK Assessment Area	Total	White	Hispanic	Asian	Black	Native American	Other
TOTAL	388,770	352,231	13,835	15,884	5,859	489	472
PERCENT	100.0	90.6	3.6	4.1	1.5	0.1	0.1

* Based on 1990 Census Data.

A review of the bank's 2001, 2002 and year-to-date 2003 (through June 30, 2003) Loan Application Registers (LAR) was conducted to determine the number of residential mortgage applications received from minorities within the bank's assessment area. During the period from January 1, 2001, through June 30, 2003, the bank received a total of 1,187 residential mortgage applications. During this time period, the bank received 117 applications from various minority groups, representing 9.9 percent of the total mortgage applications received. All but 12 minority applications resulted in originations, resulting in an 89.7 percent rate of originations on minority loans. Of these 12 applications, 7 were denials. An analysis was also performed comparing the bank's application flow levels to all other HMDA reporting lenders for calendar year 2001. MASSBANK's percentages exceed the aggregate data from this year. In 2001, minority loan applications represented 9.1 percent of the total 41,195 applications received by the 429 lenders in the assessment area. The aggregate data represents a 72.7 percent rate of originations for minority loan applications, 17 points below the rate for MASSBANK. These percentages are further acceptable when compared to the percentage of

minorities within the bank's assessment area. This analysis reveals a good and consistent effort on management's part to address the mortgage credit needs of the minority community within the assessment area. Refer to the table below for specific origination details.

1 - 4 FAMILY MORTGAGE APPLICATION FLOW

	2001		2002		Y-T-D 2003		TOTAL	
RACE	#	%	#	%	#	%	#	%
Asian	34	6.7	28	5.9	9	4.4	71	6.0
Black	3	0.6	4	0.8	2	1.0	9	0.8
Hispanic	3	0.6	5	1.1	1	0.5	9	0.8
Native American	3	0.6	0	0.0	0	0.0	3	0.2
Joint Race	9	1.7	6	1.3	4	2.0	19	1.6
Other	2	0.4	4	0.8	0	0.0	6	0.5
TOTAL MINORITY	54	10.6	47	9.9	16	7.9	117	9.9
White	456	89.4	428	90.1	186	92.1	1,070	90.1
Not Available	0	0.0	0	0.0	0	0.0	0	0.0
TOTAL	510	100.0	475	100.0	202	100.0	1,187	100.0

* Obtained from the bank's 2001, 2002 and year-to-date 2003 Loan Application Registers

VII. Loss of Affordable Housing

The bank's participation in community development lending activities and government lending programs, along with its development of credit products with flexible lending criteria, has assisted low and moderate-income individuals to remain in their neighborhoods.

INVESTMENT TEST

As defined under the CRA regulation, a qualified investment is a lawful investment, deposit, membership share or grant that has community development as its primary purpose. Community development includes affordable housing for low- and moderate-income individuals, community services targeted to low- and moderate-income individuals, activities that promote economic development by financing small businesses or small farms, and activities that revitalize or stabilize low- and moderate-income geographies. MASSBANK is rated "Needs to Improve" in this area. The bank's primary source of qualified investments comes through the bank's charitable grants and contributions. The following describes the institution's qualified investments.

Qualified Grants

The bank has provided contributions to organizations that provide education and training, affordable housing, youth programs, and health and human services for individuals in need. During the fiscal year 2001 the bank provided \$77,255 in charitable contributions. \$44,380 or 57.4 percent was in qualified contributions and grants, in support for the development of facilities which promote community development, as defined under the CRA regulation. During the fiscal year 2002 the bank provided \$79,030 in charitable contributions. \$48,305 or 61.1 percent was in qualified contributions and grants. As of Y-T-D June 30, 2003 the bank contributed \$75,220 in charitable contributions, and a total of \$44,400 or 59.0 percent was for community development purposes.

The following is a sampling of qualified grants:

Lowell Plan – This is a private, nonprofit, economic development corporation seeking to promote the economic development and revitalization of the City of Lowell.

Coalition For A Better Acre – A non-profit community development organization organized to promote economic development and affordable housing in the “Acre” section of Lowell.

Paul E. Tsongas Arena - Newly constructed hockey and sports arena in downtown Lowell.

Massachusetts Consumer Credit Counseling Service – A nonprofit credit counseling agency that provides free services to individuals with credit problems.

Habitat For Humanity – A non-profit organization that promotes affordable housing plus free serving of 2 mortgage loans

Merrimack Valley Housing Partnership - Project Genesis Program that provides programs and seminars targeting first time homebuyers of low and moderate-income.

Affordable Housing Grant

In 2002, the bank instituted an innovative affordable housing grant designed to better ascertain and assist in meeting the affordable housing needs in its assessment area. The solicited grant applications from 14 area housing authorities and non-profit organizations to compete for a \$10,000 grant. The first grant awarded was given to the Reading Housing Authority that used the funds to

underwrite the cost of operating an additional 4 units of affordable housing in the Town of Reading.

Mortgage-Backed Securities

In November 1998, MASSBANK entered into an agreement with FMNA to purchase \$2 million worth of mortgage-backed securities. In January and May 1999, the bank purchased two securities totaling \$891,558 under the agreement. The terms of the agreement provided that FNMA would provide securities backed by mortgage loans originated within the bank's eleven assessment area communities. Additionally, FNMA would ensure that the loans being securitized would have original fixed-rate maturities of 15 to 30 years and that 90 percent of the principal amount of the securities would be backed by loans to either low or moderate-income borrowers. The book value of these investments are approximately \$67,000 and \$6, respectively.

Other Investments

MASSBANK provides exclusive use of a store front office and furnishings to the nonprofit agency, Consumer Credit Counseling Service, free of charge. Management estimates the value of the use of the space to be approximately \$12,000 annually.

SERVICE TEST

The Service Test evaluates an institution's record of helping to meet the credit needs of its assessment area by analyzing both the availability and effectiveness of an institution's systems for delivering retail banking services and the extent and innovativeness of its community development services. The institution's retail banking services are evaluated pursuant to the following criteria: 1) the distribution of the institution's branches among geographies of different income levels; 2) the record of opening and closing branches, particularly branches located in low and moderate-income geographies or that primarily serve low or moderate-income individuals; 3) the availability and effectiveness of alternate systems for delivering retail banking services; and 4) the range of services provided in low, moderate, middle, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

In addition, the institution's community development services are evaluated pursuant to the following criteria: 1) the extent of community development services offered and used; 2) the innovativeness of community development services, including whether they serve low and moderate-income customers in new ways or serve groups of customers not previously served; 3) the degree to

which they serve low and moderate-income areas or individuals; and 4) their responsiveness to available opportunities for community development services.

The bank's service performance was rated an overall "High Satisfactory". The following information details the data compiled and reviewed, as well as conclusions on the bank's performance.

The bank's systems for delivering retail-banking services are readily accessible to geographies and individuals of different income levels within its assessment area. Retail banking services and products appear to offer consumers the flexibility and convenience expected from an institution of this size. In addition, officers and employees of MASSBANK have demonstrated an adequate level of involvement in community organizations located throughout its assessment area and have provided a reasonable level of service activity in response to community needs. The following details the institution's services.

RETAIL BANKING SERVICES

Distribution of Branches

MASSBANK operates a main office and fourteen full service branch offices. All banking locations provide 24-Hour ATMs. In addition, the bank operates two remote ATMs, one in the Tsongas Arena, Lowell and Johnnies' Foodmaster in Melrose. The bank's ATMs are linked to the CIRRUS, NYCE, and TX networks.

The bank's main office in Reading is located in a middle-income census tract, while nine (of the fourteen) branch offices are also located in middle income geographies. These nine offices include two each in Melrose and Wilmington; and one office in each of the following municipalities; Chelmsford, Dracut, Medford, Stoneham, and Tewksbury. A second Chelmsford office and the Westford branch are located in upper income census tracts. The Downtown Lowell office sits in a low-income geography. Lastly, the Lakeview Avenue, Lowell and the Glendale Square, Everett offices are both situated in moderate-income geographies.

Branch hours are convenient and tailored to meet the needs of all segments of bank's assessment area. MASSBANK offices provide extended hours on Thursday and Friday evenings. Furthermore, all branches are opened Saturday mornings, except the downtown Lowell branch. There are drive-up or walk-up windows with extended hours in all offices, excepting the Medford, Main Street, and Melrose locations.

Alternative Banking Services

The bank participates in the Basic Banking for Massachusetts program, which encourages banks to provide low cost banking products to expand banking access

for low and moderate-income people. MASSBANK offers two basic deposit products that meet the program's guidelines. These checking and savings accounts are called "Lifeline Banking" and "Lifeline Savings". Customers must be low or moderate-income individuals to qualify for a MASSBANK's "Lifeline " account. An ATM card is available with a Lifeline checking or statement savings account. In addition, all MASSBANK ATM transactions for all customers are free of charge.

MASSBANK currently offers two ATM card options. The first is called MASSBANK "Power Card" and function strictly for ATM transactions on the TX, NYCE or CIRRUS networks. The second card option is the "Power Plus Card" and provides the same ATM access, but add Point of Sale (POS) capability as supermarkets, gas stations and other retailers displaying the NYCE symbol.

Community Development Services

The CRA regulation defines a community development service as a service that is primarily for a community development purpose and is related to the provision of financial services. Mass Bank's officer and employees are involved with community organizations that address economic and affordable housing development. Through these involvements, the bank staff lends its technical expertise and judgement to these organizations. Detailed below are MASSBANK's qualified community development services during the exam period.

- **Mystic Valley Elder Services** - This non-profit agency on aging serves North Suburban Boston and sponsors the local Money Management Program. This program is one of many offered by the agency serving low-income and isolated senior citizens. The bank's Senior Vice President for Community Banking is an Advisory Board member for the Money Management Program. As a member of the Advisory Committee, the Senior Vice President attends meetings several times a year to provide advice and knowledge on how to best market the program to the community and encourage volunteers. In addition, a Branch Manager serves as a volunteer for this organization providing bill paying and budget assistance to elderly clients.
- **City of Melrose Council on Aging** – This organization consists of seven volunteers appointed by the City of Melrose to meet the needs of residents age sixty and over and their families. This organization works to improve elders' quality of life and to help them remain in their homes. An Assistant Vice President of MASSBANK currently serves as Treasurer of this organization.
- **Cambodian American League of Lowell (CALL)** - CALL was founded in July 1993 as a Community Development Corporation (CDC) in response to the absence of targeted community and economic development assistance to Lowell's Cambodian community. CALL's primary focus is to promote home

ownership among the Cambodian population through home ownership training, technical assistance, and affordable housing development. In addition, this organization thrives to strengthen and expand local businesses in the Lower Highlands Neighborhood and throughout the city through Microenterprise training and loan programs. During the exam period, MASSBANK's Senior Vice President served as Chairman of the Loan Committee and was a member of the Advisory Committee for this organization. During the same time period, the bank's CRA Coordinator also served as a Board member and member of the Advisory Committee. This organization offers a six to eight week course each quarter for individuals who wish to start their own business. A Senior Vice President and an Assistant Vice President of MASSBANK volunteer their time as instructors for these courses that provide information on marketing and loans.

- **Reading Housing Authority** – This government organization works within Reading to provide low-income housing to residents and also works with developers in creating property for low-income housing. An Assistant Vice President of MASSBANK currently serves as Chairman of the Board of this organization.
- **Downtown Lowell Business Association (DLBA)** – This non-profit organization is dedicated to maintaining downtown Lowell as a center for employment and promotes new business ventures. This organization provides technical and marketing support to the downtown businesses and serves as a liaison or representative for them to the municipal government. The DLBA's goal is to serve the needs of the downtown business community, including marketing the downtown area, providing advisory services to retailers, and representing the downtown retailers on local political issues. MASSBANK's CRA Officer currently serves as a Board Member of this non-profit organization.
- **Red Cross Merrimack Valley** – This non-profit organization provides relief from suffering or distress resulting from disaster or other calamity. An Assistant Vice President of MASSBANK currently serves on the Advisory Board.
- **The Lowell Plan** – This private non-profit economic development corporation is committed to making the City of Lowell the best city of its size in terms of business climate, livability and innovation. The Lowell Plan, founded in 1979, fosters cooperation among the business, government and non-profit sectors. This private/public collaboration is the creative force behind the city's revitalization/economic development. MASSBANK's President serves as a Director of this non-profit organization. The Lowell Plan also has a sub-committee called the Neighborhood Committee. This committee works with local government and various neighborhood groups to improve housing stock and neighborhood desirability within Lowell. A Senior Vice President of MASSBANK currently serves on this committee.

- **Community Teamwork, Inc (CTI)** - This antipoverty non-profit agency serves Lowell and other Merrimack Valley communities. CTI's administers a wide range of programs funded largely by federal, state and local governments. Its housing programs include rental assistance, shelters for homeless families and homeownership education programs. A Senior Vice President of MASSBANK is a member and Treasurer of the Board of Directors of this organization.
- **Lowell Development and Finance Corporation (LDFC)** – This corporation is the financing partner of The Lowell Plan and shares the same Board of Directors representing the private, public and non-profit interest within the city. LDFC plays a crucial role in Lowell's commercial and residential resurgence. LDFC administers the City of Lowell's homebuyer assistance program, as well as offering its own assistance program. The LDFC has gained approval from ten local banks to create a \$20 million loan pool, in an ongoing effort to reinvent and replicate the Julian Steele public housing project. The President of MASSBANK currently serves as President of this corporation.
- **Coalition for a Better Acre (CBA)** is a non-profit community development corporation serving Lowell's Acre neighborhood. "The Acre" is located close to downtown Lowell and comprises a low-income geography. Since its founding in 1982, Coalition for a Better Acre (CBA) has been a driving force for rehabilitating and building affordable housing in this historic area. Additionally, CBA is involved in economic development efforts (business incubator and job training program) and community education and advocacy. During the time period of the examination, a Mortgage Officer of MASSBANK served on CBA's Board of Directors and was a Trustee of the North Canal Housing Trust, a low-income rental housing affiliate. As of the examination date, MASSBANK no longer employs this individual, however, did serve as a director of this organization during the time period reviewed.

Educational Seminars and Services

Credit and other financial education services are also considered under the regulation as community development services. Bank officers and employees have participated in seminars either sponsored by the bank. These seminars are detailed below.

- **First-Time Homebuyers Seminars (FTHB)**
In April 2001, the bank held two FTHB seminars; one in Wakefield and one in Chelmsford. During July 2003, the bank conducted two first-time homebuyer seminars in Wakefield and Lowell. These seminars featured guest speakers, including a real estate agent, an attorney, a home inspector, and an affordable housing representative. The seminar presenters discussed topics

including finding the right home, legal concerns, home inspection, affordable housing, bank financing, and determining how much mortgage attendees can afford.

- **Elder Seminar**

During April 2003, MASSBANK was a cosponsor and participant in a seminar that was held in Reading to educate elders about various issues they face. This seminar was also sponsored by the Homeowner Options for Massachusetts Elders (HOME). A Senior Vice President and Security Officer of MASSBANK participated in the event that covered credit and financial information.

- **The Merrimack Valley Housing Partnership**

One Loan Origination Officer and one Mortgage Originator from MASSBANK took part in a first-time homebuyers seminar entitled Project Genesis, a series of comprehensive home buyer training seminars consisting of four evening sessions which includes one individual counseling session. This seminar was held by the Merrimack Valley Housing Partnership in Lowell, a private, non-profit organization committed to promoting home ownership opportunities for low- and moderate-income earners. In May 2002, these two employees of MASSBANK taught a class in home financing, in June 2002 they served as consultants at the seminar, and the two also worked one-on-one to help students determine how to get the financing to purchase a home.

- **Co-op Program**

MASSBANK offers a program for students of the Lowell Vocational Technical School. This program provides employment opportunities and education to four students on an annual basis, and allows students to receive educational credit toward their graduation. Branch managers grade students. Each student works on an every other week basis and receives salary from MASSBANK. Upon completion of the program, students may and have been offered employment at MASSBANK.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS

A review was conducted for compliance with fair lending regulations, and no evidence of discrimination was revealed.

APPENDIX A

SCOPE OF EXAMINATION: MASSBANK has one assessment area that was reviewed on-site using the Large Bank CRA evaluation Procedures. The evaluation included an assessment of the bank's performance within the assessment area, which is included the Boston-MA Consolidated Metropolitan Statistical Area (CMSA). A review of the Divisions records, as well as the bank's CRA Public File, did not reveal any adverse comments relating to the bank's CRA performance since the prior examination. The period under review is January 1, 2001 through June 30, 2003. Residential lending activity as well as community development lending activity was based upon the 2001, 2002 and year-to-date June 30, 2003 HMDA loan application registers and community development loan registers. The bank did not have or report any small business loans.

Appendix B

Institution

ID: MASSBANK

Table 1. Lending Volume

LENDING VOLUME													Geography: MASSBANK				Evaluation Period: JANUARY 1, 2001 TO JUNE 30, 2003			
MA/Assessment Area (2001):	% of Rated Area Loans (#) in MA/AA	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans **		Total Reported Loans		% of Rated Area Deposits in MA/AA***								
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$(000's)									
Full Review:																				
MASSBANK 2001	100.00	482	63,444	0	0	0	0	2	445	484	63,928	0.00								
MASSBANK 2002	100.00	451	60,444	0	0	0	0	1	45	452	60,489	0.00								
MASSBANK Y-T-D 06/30/2003	100.00	194	24,633	0	0	0	0	1	45	45	45	0.00								

* Loan Data as of January 1, 2001 to June 30, 2003. Rated area refers to either the state or multi-state MA rating area.

** The evaluation period for Community Development Loans is From January 01, 2001 to June 30, 2003.

*** Deposit Data as of January 01, 2002. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

ID: MASSBANK

Table 1. Other Products

LENDING VOLUME				Geography: MASSBANK				Evaluation Period: JANUARY 1, 2001 TO JUNE 30, 2003						
MA/Assessment Area (2001):	% of Rated Area Loans (#) in MA/AA	Total Optional Loans		Small Business Real Estate Secured**		Home Equity**		Motor Vehicle**		Credit Card**		Other Secured Consumer**		% of Rated Area Deposits in MA/AA**
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$(000's)	
Full Review:														
MASSBANK 2001	0.00	0	0	0	0	0	0	0	0	0	0	0	0	0.00
MASSBANK 2002	0.00	0	0	0	0	0	0	0	0	0	0	0	0	0.00
MASSBANK Y-T-D 06/30/2003	0.00	0	0	0	0	0	0	0	0	0	0	0	0	0.00

^{*} Loan Data as of January 1, 2001 to June 30, 2003. Rated area refers to either the state or multi-state MA rating area.

^{**} The evaluation period for Optional Product Line(s) is From January 01, 2001 to June 30, 2003.

^{***} Deposit Data as of January 01, 2002. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

ID: MASSBANK

Table 1. Other Products

LENDING VOLUME		Geography: MASSBANK		Evaluation Period: JANUARY 1, 2001 TO JUNE 30, 2003	
MA/Assessment Area (2001):	Other Unsecured Consumer Loans*		Other Optional Loans*		
	#	\$ (000's)	#	\$ (000's)	
Full Review:					
MASSBANK 2001	0	0	0	0	
MASSBANK 2002	0	0	0	0	
MASSBANK Y-T-D 06/30/2003	0	0	0	0	

* The evaluation period for Optional Product Line(s) is From January 01, 2001 to June 30, 2003.

Institution ID: MASSBANK

Table2a. Geographic Distribution of Home Purchase Loans

Geographic Distribution: HOME PURCHASE			Geography: MASSBANK				Evaluation Period: JANUARY 1, 2001 TO JUNE 30, 2003							
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income*			
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Low	Mod	Mid	Upp
Full Review:														
MASSBANK 2001	55	100.00	0.61	5.45	14.99	16.36	60.10	63.64	24.30	14.55	2.22	17.77	58.57	21.44
MASSBANK 2002	27	100.00	0.61	3.70	14.99	0.00	60.10	74.07	24.30	22.22	1.68	18.71	57.97	21.64
MASSBANK Y-T-D 06/30/2003	13	100.00	1.48	0.0	20.81	15.38	51.13	53.85	26.58	30.77	N/A	N/A	N/A	N/A

* Based on 2001 and 2002 Peer Mortgage Data: Northeast Region.

** Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

*** Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by the number of owner occupied housing units in the area based on 1990 Census information for 2001 and 2002, and based on 2000 Census information for y-t-d 2003.

Institution ID: MASSBANK

Table 3a. Geographic Distribution of Home Improvement Loans

Geographic Distribution: HOME IMPROVEMENT					Geography: MASSBANK				Evaluation Period: JANUARY 1, 2001 TO JUNE 30, 2003					
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income			
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Low	Mod	Mid	Upp
Full Review:														
MASSBANK 2001	6	100.00	0.61	16.67	14.99	16.67	60.10	16.67	24.30	50.00	1.03	16.88	58.64	23.45
MASSBANK 2002	4	100.00	0.61	0.00	14.99	0.00	60.10	75.00	24.30	25.00	0.80	17.16	59.16	22.88
MASSBANK Y-T-D 06/30/2003	1	100.00	1.48	0.00	20.81	0.00	51.13	100.0	26.57	0.00	N/A	N/A	N/A	N/A

* Based on 2001 and 2002 Peer Mortgage Data: Northeast Region.

** Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

*** Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 1990 Census information for 2001 and 2002, and based upon 2000 Census information for y-t-d 2003.

Institution ID: MASSBANK

Table 4a. Geographic Distribution of Home Mortgage Refinance Loans

Geographic Distribution: HOME MORTGAGE REFINANCE 2003				Geography: MASSBANK				Evaluation Period: JANUARY 1, 2001 TO JUNE 30,						
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income			
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Low	Mod	Mid	Upp
Full Review:														
MASSBANK 2001	420	100.0 0	0.61	0.71	14.99	11.90	60.10	58.10	24.30	29.29	0.82	13.54	61.34	24.31
MASSBANK 2002	420	100.0 0	0.61	0.24	14.99	5.00	60.10	62.14	24.30	32.62	0.80	12.76	60.02	26.42
MASSBANK Y-T-D 06/30/2003	180	100.0 0	1.48	0.56	20.81	11.67	51.13	46.11	26.57	41.66	N/A	N/A	N/A	N/A

* Based on 2001 Peer Mortgage Data: Northeast Region.

** Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

*** Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 1990 Census information for 2001 and 2002, and based on 2000 Census information for 2003.

Institution ID: MASSBANK

Table 5a. Geographic Distribution of Multifamily Loans

Geographic Distribution: MULTIFAMILY					Geography: MASSBANK				Evaluation Period: JANUARY 1, 2001 TO JUNE 30, 2003					
MA/Assessment Area:	Total Multifamily Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income			
	#	% of Total**	% of MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	Low	Mod	Mid	Upp
Full Review:														
MASSBANK 2001	1	100.00	13.55	100.00	27.82	0.00	52.94	0.00	5.69	0.00	12.68	38.03	43.66	5.63
MASSBANK 2002	0	0.00	13.55	0.00	27.82	0.00	52.94	0.00	5.69	0.00	13.79	42.53	36.78	6.90
MASSBANK Y-T-D 06/30/2003	0	0.00	16.36	0.00	33.51	0.00	43.10	0.00	7.03	0.00	N/A	N/A	N/A	N/A

* Based on 2001 and 2002 Peer Mortgage Data: Northeast Region.

** Multifamily loans originated and purchased in the MA/AA as a percentage of all multifamily loans originated and purchased in the rated area.

*** Percentage of multifamily units is the number of multifamily housing units in a particular geography divided by number of multifamily housing units in the area based on 1990 Census information for 2001 and 2002, and based on 2000 Census information for y-t-d 2003.

Institution ID: MASSBANK

Table 8a. Borrower Distribution of Home Purchase Loans

Borrower Distribution: HOME PURCHASE				Geography: MASSBANK				Evaluation Period: JANUARY 1, 2001 TO JUNE 30, 2003						
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending Data			
	#	% of Total**	% Families**	% BANK Loans****	% Families**	% BANK Loans****	% Families**	% BANK Loans****	% Families**	% BANK Loans****	Low	Mod	Mid	Upp
Full Review:														
MASSBANK 2001	55	100.00	19.38	5.45	18.55	38.18	26.22	30.91	35.86	25.45	5.86	20.87	31.96	41.30
MASSBANK 2002	27	100.00	19.38	14.81	18.55	37.04	26.22	18.52	35.86	29.63	5.91	21.76	34.17	38.16
MASSBANK Y-T-D 06/30/2003	13	100.00	20.56	0.00	18.45	30.77	23.83	30.77	37.17	38.46	N/A	N/A	N/A	N/A

* Based on 2001 and 2002 Peer Mortgage Data: Northeast Region.

** As a percentage of loans with borrower income information available. No information was available for 0.00% of loans originated and purchased by BANK.

*** Percentage of Families is based on the 1990 Census information for 2001 and 2002, and based on 2000 Census information for y-t-d 2003.

**** Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

Institution ID: MASSBANK

Table 9a. Borrower Distribution of Home Improvement Loans

Borrower Distribution: HOME IMPROVEMENT				Geography: MASSBANK				Evaluation Period: JANUARY 1, 2001 TO JUNE 30, 2003						
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending Data			
	#	% of Total**	% Families**	% BANK Loans****	% Families* **	% BANK Loans****	% Families* **	% BANK Loans****	% Families* **	% BANK Loans****	Low	Mod	Mid	Upp
Full Review:														
MASSBANK 2001	6	100.00	19.38	0.00	18.55	66.67	26.22	16.67	35.86	16.67	6.77	19.07	32.51	41.65
MASSBANK 2002	4	100.00	19.38	0.00	18.55	50.00	26.22	50.00	35.86	0.00	7.83	20.20	32.24	39.73
MASSBANK Y-T-D 06/30/2003	1	100.00	20.56	0.00	18.45	0.00	23.83	0.00	37.17	100.00	N/A	N/A	N/A	N/A

* Based on 2001 and 2002 Peer Mortgage Data: Northeast Region.

** As a percentage of loans with borrower income information available. No information was available for 0.00% of loans originated and purchased by BANK.

*** Percentage of Families is based on the 1990 Census information for 2001 and 2002, and based on 2000 Census information for y-t-d 2003.

**** Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

Institution ID: MASSBANK

Table 10a. Borrower Distribution of Home Mortgage Refinance Loans

Borrower Distribution: HOME MORTGAGE REFINANCE 2003			Geography: MASSBANK				Evaluation Period: JANUARY 1, 2001 TO JUNE 30, 2003							
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending Data			
	#	% of Total**	% Families**	% BANK Loans****	% Families* **	% BANK Loans****	% Families* **	% BANK Loans****	% Families* **	% BANK Loans****	Low	Mod	Mid	Upp
Full Review:														
MASSBANK 2001	420	100.00	19.38	4.05	18.55	12.38	26.22	34.05	35.86	49.52	4.99	20.60	32.15	42.26
MASSBANK 2002	420	100.00	19.38	3.10	18.55	16.90	26.22	34.76	35.86	45.24	6.24	21.71	32.89	39.17
MASSBANK Y-T-D 06/30/2003	180	100.00	20.56	2.78	18.45	12.78	23.83	21.11	37.17	63.33	N/A	N/A	N/A	N/A

* Based on 2001 and 2002 Peer Mortgage Data: Northeast Region.

** As a percentage of loans with borrower income information available. No information was available for 0.00% of loans originated and purchased by BANK.

*** Percentage of Families is based on the 1990 Census information for 2001 and 2002, and based on 2000 Census information for y-t-d 2003.

**** Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

Institution ID: MASSBANK

Table 14. Qualified Investments

QUALIFIED INVESTMENTS		Geography: MASSBANK			Evaluation Period: JANUARY 1, 2001 TO JUNE 30, 2003				
MA/Assessment Area:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
Full Review:									
MASSBANK 2001	N/A	N/A	0	0	0	0	0.00	0	0
MASSBANK 2002	N/A	N/A	0	0	0	0	0.00	0	0
MASSBANK Y-T-D 06/30/2003	N/A	N/A							

* 'Prior Period Investments' means investments made in a previous evaluation period that are outstanding as of the examination date.

** 'Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

Institution ID: MASSBANK

MASSBANK

Demographic Information for Full Scope Area: MASSBANK						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	72	8.33	27.78	48.61	15.28	0.00
Population by Geography	388,770	4.14	22.56	54.54	18.75	0.00
Owner-Occupied Housing by Geography	87,122	0.61	14.99	60.10	24.30	0.00
Business by Geography	19,004	6.26	16.96	51.12	25.67	0.00
Farms by Geography	276	0.36	9.78	59.06	30.80	0.00
Family Distribution by Income Level	100,942	19.38	18.55	26.22	35.86	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	38,286	6.34	32.30	50.53	10.83	0.00
Median Family Income HUD Adjusted Median Family Income for 2001 Households Below Poverty Level		48,531 74,742 8.72%	Median Housing Value Unemployment Rate (1990 US Census)		161,847 4.02%	

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 1990 US Census and 2001 HUD updated MFI

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

MASSBANK

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business JULY 28, 2003, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

_____	_____
_____	_____
_____	_____
_____	_____
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_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

A majority of the Board of Directors/Trustees

Dated at _____ this _____ day of _____ 20 _____

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one local community, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.